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AMEMBASSY ANKARA

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USMISSION NATO

US DOCO SOUTH/POLAD

S E C R E T SECTION 1 OF 2 ROME 1752

E.O. 11652: GDS

TAGS: PINT, IT

SUBJ: MONTHLY POLITICAL REPORT -- JANUARY 1976

SUMMARY: THE ITALIAN POLITICAL SCENE IN JANUARY WAS DOMINATED ALMOST EXCLUSIVELY BY THE GOVERNMENT CRISIS, THE LIRA CRISIS, AND REVELATIONS ABOUT CIA AGENTS AND ACTIVITIES IN ITALY. THE MONTH ENDED WITH THE CRISES UNRESOLVED AND THE CIA STORY STILL ON THE FRONT PAGE. END SUMMARY.

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2. THE GOVERNMENT CRISIS: THE NEW YEAR BEGAN WITH A POLITICAL

BANG WITH THE APPEARANCE OF A DECEMBER 31 EDITORIAL BY PSI SECRETARY DE MARTINO WHICH CLEARLY ANNOUNCED A GOVERNMENT CRISIS ON THE TWIN GROUNDS OF ECONOMIC POLICY AND RELATIONS WITH THE COMMUNIST PARTY (PCI). DE MARTINO'S MOTIVATIONS AND TIMING HAVE SINCE BEEN THE SUBJECT OF ENDLESS SPECULATION, BUT SEVERAL THINGS ARE CLEAR: HE SURPRISED HIS OWN PARTY; THE PSI DID NOT HAVE AN ALTERNATIVE ECONOMIC PLAN READY; AND THE PSI HAD NOT THOUGHT THROUGH THE PROBLEM OF HOW TO ASSOCIATE THE PCI TO THE GOVERNING MAJORITY IN A WAY THAT WOULD DEPRIVE IT OF ITS ELECTORAL ADVANTAGE OF BEING ABLE TO CRITICIZE ALL GOVERNMENT PROGRAMS AND ACTIONS. FEW, HOWEVER, QUESTION THAT THE BASIC MOTIVATION WAS CONCERN ABOUT THE CREEPING "HISTORIC COMPROMISE" BETWEEN THE PCI AND THE MORO-LA MALFA GOVERNMENT.

THE CHRISTIAN DEMOCRATIC (DC) INITIALLY AT LEAST APPEARED TO TAKE A VERY RELAXED VIEW OF THE IMPENDING CRISIS. THEY APPARENTLY MADE NO MOVE TO DISSUADE THE PSI FROM TAKING THE DEFINITIVE ACTION THREATENED IN DE MARTINO'S EDITORIAL AND, IN KEEPING WITH ITALIAN TRADITION, WHEN THE PSI FORMALLY ANNOUNCED ITS INTENTION TO WITHDRAW ITS SUPPORT OF THE GOVERNMENT, THE DC-LED GOVERNMENT PROMPTLY RESIGNED WITHOUT TESTING SOCIALIST INTENTIONS ON THE FLOOR OF PARLIAMENT.

THE GOVERNMENT'S RESIGNATION WAS PROMPTLY FOLLOWED BY PRESIDENT LEONE'S REQUEST THAT MORO ATTEMPT TO FORM A NEW GOVERNMENT. WHILE MORO BEGAN HIS WORK OF CONSULTATION AND NEGOTIATION, THE DC PARTY LEADERSHIP WAS PREOCCUPIED WITH AN INTENSIVE INTERNAL DEBATE OVER THE RELATIVE MERITS OF EARLY ELECTIONS OR THE FORMATION OF A NEW GOVERNMENT THAT WOULD LAST AT LEAST UNTIL NEXT FALL IF NOT UNTIL THE SCHEDULED END OF THE CURRENT LEGISLATURE IN MAY 1977. THE BASIC ARGUMENT FOR A NEW GOVERNMENT IS THAT THE DC IS NOT READY FOR ELECTIONS, THAT IT HAS NOT RECOVERED FROM ITS DEFEAT IN THE LOCAL ELECTIONS OF LAST JUNE 15, THAT IT DOES NOT WISH TO GIVE PUBLIC IMPRESSION THAT DC UNABLE TO FORM A GOVERNMENT, AND THAT MORE TIME IS NEEDED TO ALLOW FORCES SEEKING DC REORGANIZATION AND RENEWAL TO HAVE A CHANCE TO FOLLOW THROUGH. OTHERS QUICKLY SAW MANY TACTICAL ADVANTAGES TO EARLY ELECTIONS: IT WOULD ENABLE THE DC TO AVOID THE IMPORTANT LOCAL ELECTIONS THIS SPRING WHICH MOST EXPECT TO GO BADLY FOR THE DC (ESPECIALLY IN ROME) AND TO AVOID A REFERENDUM ON ABORTION. IT WOULD ALSO LEAVE THE OLD GUARD IN UNDISPUTED CONTROL OF THE PARTY.

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AS EXPECTED, THE DC ANNOUNCED ITSELF OPPOSED TO EARLY ELECTIONS, BUT THE SPEED WITH WHICH MORO EXHAUSTED (WITH NEGATIVE RESULTS) EVERY POSSIBLE CONFIGURATION FOR A NEW GOVERNMENT STRONGLY SUGGESTED THAT MORO AND THE BULK OF THE LEADERSHIP WERE MOVING RAPIDLY TOWARD EARLY ELECTIONS. IN DOING SO, THEY OBVIOUSLY WISHED TO PLACE THE BLAME FOR HAVING ELECTIONS NOW (E.G., RATHER THAN ATTENDING TO THE ECONOMIC CRISIS) ON THE PSI. INITIALLY IT APPEARED THAT THE DC WOULD HAVE LITTLE TROUBLE IN

DOING JUST THAT, BUT THE PASSAGE OF TIME, THE LIRA CRISIS,
AND THE APPEARANCE TO SOME THAT MORO WAS NOT REALLY TRYING TO
WORK OUT A VIABLE GOVERNMENTAL FORMULA MAY HAVE TURNED THE TABLES.
THE DC IS THEREFORE CONCERNED THAT PUBLIC OPINION MAY TURN
AGAINST IT, A CONCERN THAT IS REFLECTED IN ITS RENEWED ATTEMPT
TO NEGOTIATE AN ECONOMIC PROGRAM WITH THE PSI.

THE ONLY RIPPLE IN THE OTHERWISE SMOOTH SURFACE OF DC
UNITY IN THIS EXERCISE CAME AT THE END OF THE MONTH WITH REPORTS
OF SHARP WORDS BETWEEN ANDREOTTI AND MORO. AGAINST A BACKGROUND
OF REPEATED PSI HINTS THAT SOMEONE OTHER THAN MORO COULD WORK
OUT A DC/PSI AGREEMENT, AND ENDLESS RUMORS THAT ANDREOTTI WANTED
A MANDATE TO TRY TO FORM A GOVERNMENT, ANDREOTTI REPORTEDLY
OPENLY CRITICIZED MORO IN A CLOSED DC DIRECTORATE MEETING FOR NOT
HAVING REALLY TRIED TO WORK OUT AN AGREEMENT WITH THE SOCIALISTS.
HE ARGUED FOR AN ALLIANCE WITH THE SOCIALISTS (WITHOUT THE
REPUBLICANS PSDI) AND PUT HIMSELF FORWARD AS THE CANDIDATE TO
FORM SUCH A GOVERNMENT. HE REPORTEDLY GOT SUPPORT FOR THIS POSI-
TION FROM ONLY 25 PERCENT OF THE DIRECTORATE WHICH, AT THE END
OF THE MEETING, INSTRUCTED MORO TO WORK OUT A PROGRAM THAT WOULD
GET THE SUPPORT OF A MAJORITY OF THE PARLIAMENT FOR A DC-
MINORITY GOVERNMENT. AS THE MONTH ENDED MORO WAS TRYING TO
CARRY OUT THAT MANDATE, BUT FEW ARE OPTIMISTIC THAT HE WILL
SUCCEED. IF HE DOESN'T, THE ALTERNATIVES ARE EITHER EARLY ELEC-
TIONS OR AN ATTEMPT BY ANOTHER DC LEADER TO PUT HUMPTY-DUMPTY
BACK TOGETHER AGAIN.

WHILE EVENTS TENDED TO FOCUS ATTENTION ON THE DC, BECAUSE
IT HAD RESPONSIBILITY TO SEEK TO FORM A NEW GOVERNMENT, AND ON THE
PSI, BECAUSE IT HAD CAUSED THE CRISIS, THE PCI SAT BACK QUIETLY

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INFO DIA

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WAITING, AS ONE SOCIALIST PUT IT, FOR THE RIPE FRUIT TO FALL FROM THE TREE THAT THE PSI WAS SHAKING. AND SOME DID FALL. THE PCI'S NON-INVOLVEMENT IN THE GOVERNMENT CRISIS (BECAUSE OF THE DC'S FIRMLY ANNOUNCED OPPOSITION TO ANY PCI ASSOCIATION WITH THE GOVERNING MAJORITY) GAVE THE PCI THE OPPORTUNITY TO BE THE ONLY PARTY THAT GAVE THE IMAGE OF TALKING RESPONSIBLY ABOUT THE GOOD OF THE COUNTRY AS A WHOLE (INSTEAD OF FOCUSSING ON THE GOOD OF THE PARTY). IT DID ENGAGE IN POLEMICS ON PSI CHARGES THAT IT WAS HAVING THE BEST OF BOTH WORLDS IN PARLIAMENT (E.E., UNDER THE TABLE PARTICIPATION WITHOUT RESPONSIBILITY) OR ON THE DC'S
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REFUSAL TO CONSIDER ANY PCI PARTICIPATION IN THE GOVERNMENT. IT SIMPLY SAID THAT IT BELIEVED THAT THE SAD STATE OF THE COUNTRY REQUIRED A GOVERNMENT IN WHICH ALL "DEMOCRATIC FORCES," INCLUDING THE PCI, WOULD PARTICIPATE AND THAT IT IS READY TO PLAY ITS ROLE RESPONSIBLY -- BUT IT DID NOT INSIST. IT SPOKE OUT STRONGLY AGAINST EARLY ELECTIONS ON THE GROUND THAT THE ECONOMIC AND FINANCIAL CRISES DEMAND PRIORITY ATTENTION. RELATIONS WITH THE PSI MOVED TO A CHILLY TRUCE, BUT WITHOUT ANY DEFINITIVE BREAK AND WITH NO CHANGE IN THE PSI'S ANNOUNCED LONG-TERM PREFERENCE FOR AN "ALTERNATIVE OF THE LEFT". THE INCONCLUSIVE SOCIALIST CONFERENCE AT ELSINORE GAVE LITTLE COMFORT TO THE PCI SINCE IT JUSTAPOSED MITTERAND'S AND DE MARTINO'S PREVIOUSLY WELL-KNOWN DISPOSITION TOWARD COOPERATING WITH THE PCI AND PCF WITH SOARES' OPPOSITION BASED ON RECENT APPEARANCE. ADDED TO THIS WAS THE OPPOSITION OF THE NORTHERN EUROPEAN SOCIALISTS TOWARD SUCH COOPERATION. THE PCI'S DISAPPOINTMENT WAS HOWEVER RELIEVED BY WILLY BRANDT'S POSITIVE STATEMENTS ABOUT THE PCI SHORTLY AFTER THE CONFERENCE ADJOURNED. BRANDT'S STATEMENTS ECHOED AND GAVE ADDED WEIGHT TO EC "WISEMAN" TINDEMAN'S UNFORTUNATE AND UNNECESSARY REMARKS TO THE PRESS TO THE EFFECT THAT HE IS CONVINCED OF

THE PCI'S DEMOCRATIC AND EUROPEAN ORIENTATION. PRAVDA'S RENEWED CALL FOR COMMUNIST ORTHODOXY (ESPECIALLY IN THE WESTERN EUROPEAN PARTIES) WAS ALL BUT IGNORED IN THE ITALIAN PRESS; THE ONE PAPER THAT DID COMMENT (CORRIERE DELLA SERA) ACCEPTED THE PCI'S CLAIM TO INDEPENDENCE AND RESISTANCE TO SOVIET DEMANDS. ALL IN ALL, THE PCI'S BALANCE SHEET FOR THE MONTH IS VERY MUCH IN THE BLACK.

A FINAL ELEMENT OF IMPORTANCE IS THE PUBLIC POSITIONS TAKEN BY FIAT'S AGNELLI BROTHERS, GIANNI AND UMBERTO. GIANNI, AS PRESIDENT OF CONFINDUSTRIA, WAS CONSULTED BY THE LEADERS OF ALL OF THE POLITICAL PARTIES ENGAGED IN NEGOTIATIONS FOR A NEW GOVERNMENTAL FORMULA. WHILE LITTLE IS KNOWN OF THE SUBSTANCE OF THOSE CONVERSATIONS, GIANNI TOLD A REPORTER THAT HE BELIEVED ANY NEW GOVERNMENT TO BE EFFECTIVE WOULD HAVE TO HAVE THE "SUPPORT OR SUBSTANTIAL APPROVAL" OF THE PCI. A POLICY OF AUSTERITY AND REFORM TO COURE ITALY'S ECONOMIC ILLS WOULD NOT BE POSSIBLE, HE SAID, WITHOUT THE SUPPORT OF THE WORKERS (READ PCI). UMBERTO COMMENTING SEPARATELY TO THE PRESS, SAID THAT THE SITUATION REQUIRES A GOVERNMENT OF NATIONAL EMERGENCY IN WHICH ALL ELEMENTS, INCLUDING THE PCI, PARTICIPATE. HE SEES NO REASON TO DOUBT THE PCI'S ACCEPTANCE OF PLURALISTIC DEMOCRACY AND THE

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MARKET ECONOMY.

2. THE LIRA CRISIS: WHILE THE GOVERNMENT CRISIS WAS NOT THE BASIC CAUSE OF THE LIRA CRISIS, BOTH THE POLITICAL ATMOSPHERE AND THE CAPITAL FLIGHT ASSOCIATED WITH THE GOVERNMENT CRISIS, UNDOUBTEDLY DID CONTRIBUTE IMPORTANTLY TO THE FACT AND TIMING OF THE LIRA CRISIS. ON THE OTHER HAND, THE LIRA CRISIS DID AFFECT THE GOVERNMENT CRISIS BY IMPARTING A SENSE OF URGENCY TO WORKING OUT A SOLUTION TO IT AND OTHER ECONOMIC PROBLEMS. AS A RESULT, THE LIRA CRISIS MADE IT MORE DIFFICULT FOR THOSE IN THE DC AND PSI WHO FAVOR EARLY ELECTIONS, WHICH WOULD CAUSE A PAUSE OF 3 - 4 MONTHS IN EFFECTIVE GOVERNMENTAL ACTIVITY. US RESPONSIBILITY FOR PRECIPITATING THE LIRA CRISIS WAS ACCEPTED AS TRUE BY MANY.

3. THE CIA: THE GOVERNMENT CRISIS SHARED THE FRONT PAGES OF ITALY'S NEWSPAPERS IN JANUARY WITH AN ENDLESS STRING OF SENSATIONAL STORIES ON THE CIA. THE SERIES BEGAN WITH THE PUBLICATION OF LISTS OF NAMES (APPARENTLY COMPILED BY AGEE AND WEISMAN) OF ALLEGED CIA AGENTS IN EMBASSY ROME. THESE WERE FOLLOWED BY STORIES ON PAST AND CURRENT CIA ACTIVITIES IN ITALY WHICH WERE REPORTEDLY BASED ON LEAKS, MAINLY FROM THE PIKE COMMITTEE. THE INITIAL STORIES FOCUSSED ON AN ALLEGED \$6 MILLION DISBURSED TO ITALIAN POLITICAL FIGURES IN DECEMBER 1975 AND JANUARY 1976. CIA DIRECTOR COLBY'S DENIAL OF THIS STORY WAS GIVEN LITTLE ATTENTION OR CREDENCE BY THE LOCAL PRESS. BY THE END OF THE MONTH, THE PIKE COMMITTEE REPORT WAS BEING CITED AS THE SOURCE OF GROSS SPENDING FIGURES SINCE 1947 (\$75 MILLION) WITH EXTENSIVE QUOTES

FROM THE COMMITTEE REPORT AS WELL AS QUOTES FROM CLASSIFIED TELEGRAMS. THESE STORIES INCLUDED ONE ON ALLEGED PAYMENTS OF \$800,000 TO A HIGH-RANKING OFFICER OF THE ITALIAN INTELLIGENCE SERVICE, PRESUMED BY THE PRESS TO BE GENERAL MICELI, WHO IS UNDER INDICTMENT IN CONNECTION WITH THE RIGHT-WING OR FASCIST COUP ATTEMPT IN 1970. WHILE THE REPORTED OPPOSITION OF THE CIA TO ANY RELATIONSHIP WITH MICELI WILL HELP TO DEFUSE THE DAMAGE SOMEWHAT, ALLEGED PROOF OF A RELATIONSHIP BETWEEN THE USG AND ITALY'S NEO-FASCISTS WILL BE EXTREMELY DAMAGING TO OUR POSITION IN ITALY. ITALIAN POLITICIANS REACTED TO THESE REVELATIONS BY DEMANDING THAT THE GOI REQUEST PRESIDENT FORD TO PUBLISH ALL OF THE FACTS IN ORDER TO AVOID HAVING THE REPUTATIONS OF THE INNOCENT BESMIRCHED, ALTHOUGH WE SUSPECT THAT THEIR REQUEST WAS MOTIVATED BY DOMESTIC POSTURING MORE THAN A DESIRE FOR PUBLIC INFORMATION.

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MANY ITALIAN POLITICIANS ARE OBVIOUSLY NERVOUS AND NO MATTER HOW THE PUBLICATION OF THE PIKE COMMITTEE REPORT IS ULTIMATELY RESOLVED, IT IS NOW CLEAR THAT THE ONLY QUESTION IS HOW BADLY THE DEMOCRATIC PARTIES AND THE USG WILL BE HURT BY THESE REVELATIONS. ON THE OTHER HAND, THE MAJOR BENEFICIARIES WILL BE THE PCI AND, TO A LESSER EXTENT, THE PSI.VOLPE

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